



PG&E 2014 General Rate Case

Overview of PG&E's Request & ORA's Recommendations

Proceeding Docket: A. 12-11-009

November 20, 2013



Overview

- **Background**
- **PG&E Request for 2014 thru 2016**
- **PG&E Requests vs. ORA Recommendations**
- **Major Issue Areas**



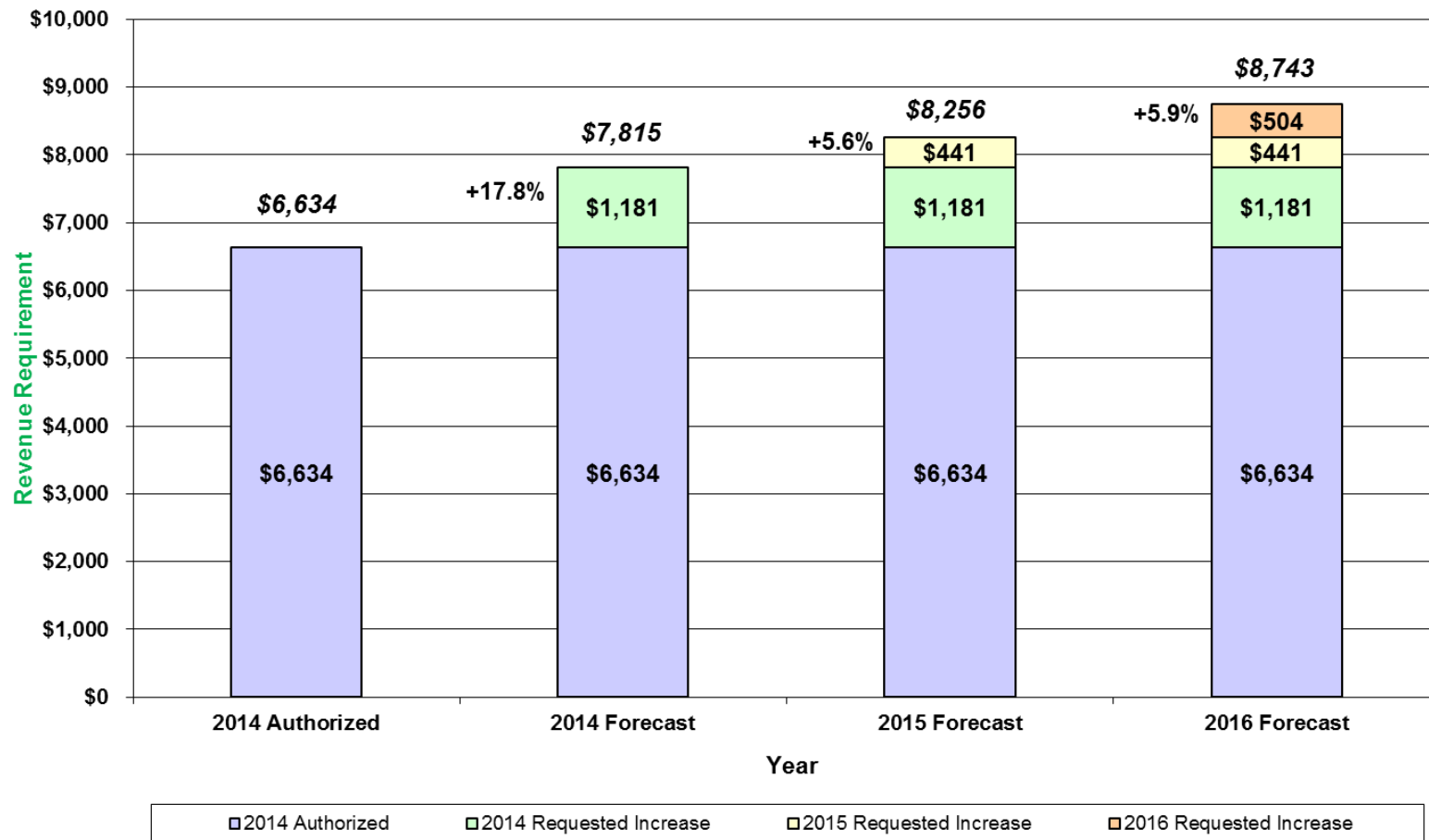
Background

- **May 13, 2011:** CPUC issued D.11-05-018 for PG&E's 2011 GRC, authorizing revenue requirement increases of \$450 million in 2011, \$180 million in 2012, and \$185 million in 2013
 - **\$1.9 billion cumulative increase over 3 years**
- **Jul 2, 2012:** PG&E tendered Notice of Intent (NOI) to file a 2014 GRC application
- **Sep 14:** ORA accepted PG&E's NOI
- **Nov 15:** PG&E filed 2014 GRC application
- **Jan 22, 2013:** Assigned Commissioner's Ruling and Scoping Memo issued
- **May 3:** ORA testimony served
- **May 17:** Intervenor Testimony, SED Consultants' Reports - Cycla (Gas) and Liberty (Electric)
- **May 22 – Jun 25:** Public Participation Hearings
- **May 31:** SED Audit Report (Overland)
- **Jun 12:** Workshop on SED Reports
- **Jun 28:** Rebuttal Testimony served
- **Jul 15 – Aug 9:** Evidentiary Hearings
- **Aug 12–13:** Mandatory Settlement Conference
- **Aug 23:** Joint Comparison Exhibit served
- **Sep 6:** Opening Briefs submitted
- **Sep 27:** Reply Briefs submitted



PG&E Request for 2014 thru 2016

PG&E's Requested Revenue Requirement for 2014 thru 2016
(in Millions of Dollars)



PG&E Request vs. ORA Recommendation

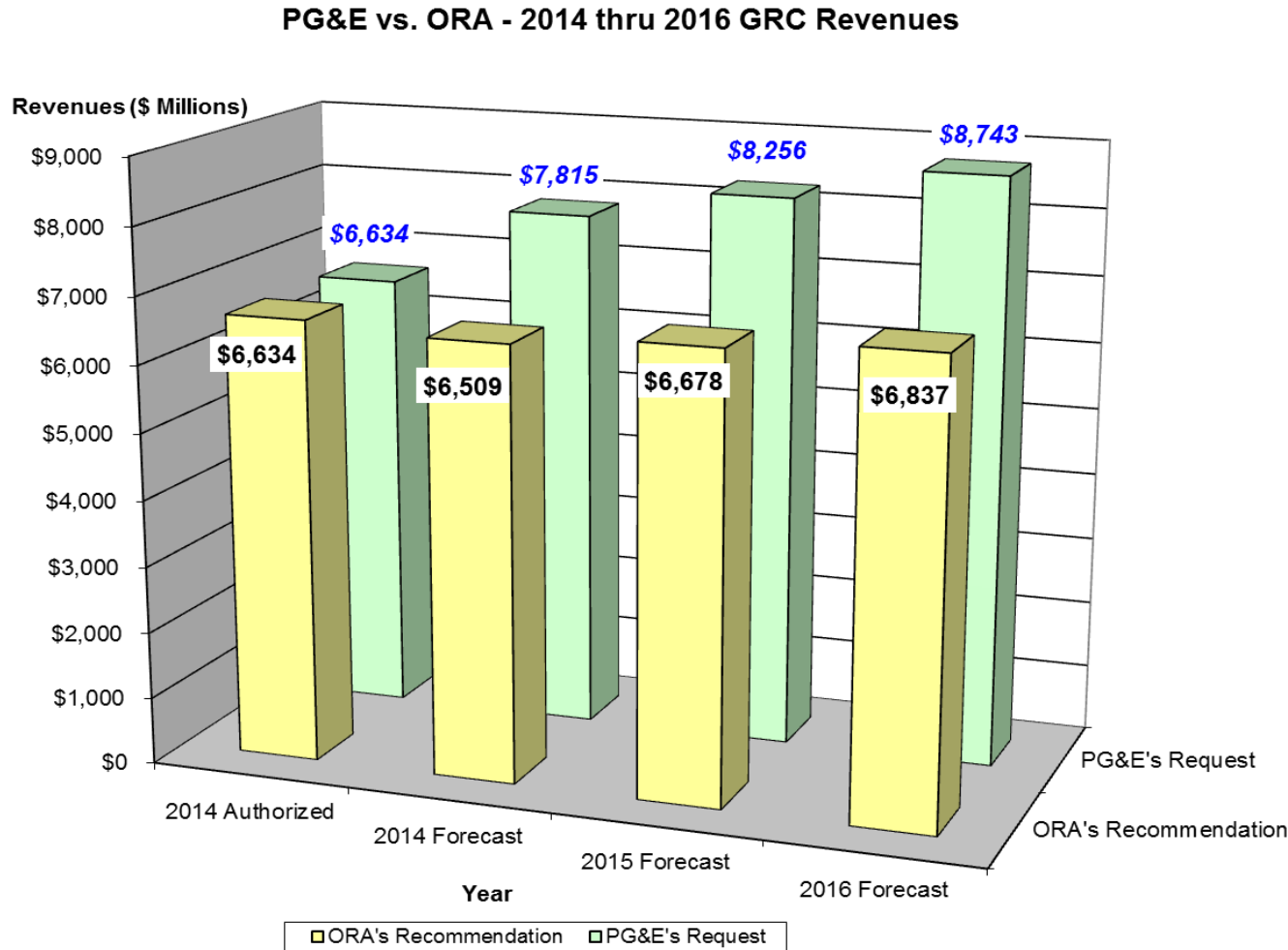
- **PG&E requests a \$4.912 billion cumulative revenue increase over the 3-year period 2014 thru 2016:**
 - \$1.181 billion (17.8%) increase for 2014 relative to currently authorized
 - Increases of \$441 million (5.6%) for 2015 and \$487 million (5.9%) for 2016
- **ORA recommends a 3-year cumulative increase of \$132 million:**
 - \$125 million (1.9%) *decrease* for 2014 relative to currently authorized
 - Increases of \$169 million (2.6%) for 2015 and \$159 million (2.4%) for 2016

(in Millions of Dollars)

Description (a)	PG&E's 2014 Present Revenues (b)	PG&E's 2014 Proposed Revenues (c)	PG&E's Forecasted Increase over 2014 Present Revenues (d=c-b)	% Change (e=d/b)	ORA's 2014 Proposed Revenues (f)	ORA's Recommended Increase over 2014 Present Revenues (g=f-b)	% Change (h=g/b)
Electric Distribution	\$3,650	\$4,167	\$517	14.2%	\$3,517	(\$132)	(3.6%)
Gas Distribution	\$1,295	\$1,747	\$452	34.9%	\$1,372	\$76	5.9%
Electric Generation	\$1,689	\$1,902	\$212	12.6%	\$1,620	(\$69)	(4.1%)
Total	\$6,634	\$7,815	\$1,181	17.8%	\$6,509	(\$125)	(1.9%)



PG&E Request vs. ORA Recommendation



Major Issue Areas

- **Gas Distribution**
 - Capital Expenditures
 - Operation & Maintenance (O&M) Expenses
- **Energy Supply**
 - Nuclear O&M Expenses
 - Hydro O&M Expenses and Capital Expenditures
- **Customer Care**
 - O&M Expenses
 - Capital Expenditures
- **Human Resources / Administrative & General**
 - Short-Term Incentive Program
 - Employee Benefits
 - Property and Liability Insurance
- **Depreciation / Rate Base**
 - Net Salvage Rates
 - Nuclear Fuel Inventory
 - Bonus Tax Depreciation
- **Post-Test Year Ratemaking**



Major Issue Areas

Gas Distribution

- **ORA proposes ratemaking mechanisms to ensure that PG&E's safety-related activities and operations are a top priority, and that PG&E appropriately spends the money it receives for safety projects/activities**
 - Ensures that PG&E will not receive excessive amounts of money upfront, and that ratepayers pay for investment when made by PG&E in these areas
- **PG&E requests \$1.85 billion in capital expenditures from 2012-2014, while ORA recommends \$1.27 billion**
 - PG&E can recover additional revenues for pipeline replacement projects and distribution reliability projects if it invests above the ORA forecasts
- **PG&E requests \$465 million in operation and maintenance (O&M) expenses for 2014, while ORA recommends \$271 million**
 - PG&E overestimates staffing needs (e.g., for its Gas Distribution Control Center)
 - Not cost effective for PG&E to accelerate its leak survey cycle from 5 years to 3 years
 - PG&E will not need to spend as much on its Distribution Integrity Management Program (DIMP) as it has in the past, because much of the necessary work has already been completed and/or are being performed with embedded funding provided by previous Commission decisions (e.g. the Cross-Bore and T-Cap Replacement Program)
 - Uncertainty associated with new technology (Piccaro Surveyor)
 - PG&E relies on high leak find rate based on limited data, which is contrary to recent history showing PG&E's system average leak rate declining since 2009
 - PG&E requests 174% increase in leak repair expenses, developed using those leak find rates



Major Issue Areas

Energy Supply

- **PG&E requests \$416 million in Nuclear O&M expenses for 2014, while ORA recommends \$316 million**
 - PG&E received money in its 2011 GRC for projects which it ultimately deferred or rescheduled, and is requesting money again for the same projects
 - In various areas, PG&E has spent less than authorized for several years
 - PG&E unable to demonstrate that it needs additional funding beyond historical levels
- **PG&E requests \$191 million in Hydro O&M expenses for 2014, while ORA recommends \$144 million**
 - PG&E requesting money to catch-up on its backlog of deferred maintenance, even though it received money in its 2011 GRC for that maintenance work
 - PG&E has a pattern of spending less than authorized by the Commission
 - PG&E unable to demonstrate that it needs additional funding beyond historical level
- **PG&E requests \$868 million in Hydro capital expenditures from 2012-2014, while ORA recommends \$819 million**
 - PG&E's higher priority projects are not impacted by ORA's recommendations
 - PG&E can reprioritize projects (e.g. improvements to generating systems, reservoirs, dams, and waterways) at their discretion
 - ORA's forecast is an increase over historic and authorized spending levels



Major Issue Areas

Customer Care

- **PG&E requests \$462 million in O&M expenses for 2014, while ORA recommends \$299 million**
 - From 2009-2012, PG&E has underspent Commission-authorized Customer Care expenses by an average of \$60 million per year
 - PG&E requests a 28% increase in staffing (664 new FTEs); ORA recommends a 3% increase
 - PG&E requests significant increases in areas where SmartMeter benefits were assured, thereby negating those benefits; ORA's forecast is \$65 million less than PG&E's forecast
 - PG&E has already been authorized \$11 million of funding for 2014 through various non-GRC proceedings for marketing education and outreach (further GRC funding is duplicative)
- **PG&E requests \$467 million in capital expenditures from 2012-2014, while ORA recommends \$370 million**
 - PG&E's \$15 million request to expand its Sacramento and Fresno Customer Contact Centers to accommodate 270 new workstations for Customer Service Representatives is not needed, as ORA opposes the proposed, excessive staffing increases
 - PG&E does not need \$9 million to relocate its Billing Operations and Credit Operations departments to a larger upgraded facility
 - PG&E's requests of \$39 million for various metering projects and \$23 million for various information technology projects are insufficiently justified



Major Issue Areas

Human Resources / Administrative & General

- **Short-Term Incentive Program (STIP)**
 - PG&E requests \$132 million for 2014, while ORA recommends \$47 million
 - 65% shareholder / 35% ratepayer funding for STIP
- **Employee Benefits (Medical, Dental, Vision, etc.)**
 - PG&E requests \$397 million for 2014, while ORA recommends \$321 million
 - PG&E employees' contributions to health care premiums should be set on comparable basis to the rate paid by employees at other companies
 - ORA forecasts for employees is less than PG&E
- **Alternative to Specific Reductions to STIP and Employee Benefits**
 - A “global” reduction of \$124 million to reflect that PG&E's compensation is 109.9% of market per the Total Compensation Study
 - ORA's ratemaking adjustment forecasts PG&E's compensation at 105% of market
- **Property & Liability Insurance**
 - PG&E requests \$105 million for 2014, while ORA recommends \$54 million
 - 50% ratepayer funding for Directors & Officers Insurance is Commission precedent
 - 2012 recorded costs for property and liability insurance lower than PG&E forecasted, so premiums going forward also expected to be lower



Major Issue Areas

Depreciation / Rate Base

- **Depreciation Expenses**

- PG&E requests \$2.26 billion for 2014, while ORA recommends \$1.89 billion
 - \$317 million difference due to different Net Salvage Rates for certain types of assets
 - \$57 difference million to do ORA's lower capital expenditure forecasts

- **Rate Base (Net Infrastructure Investment)**

- PG&E requests \$401 million of Nuclear Fuel Inventory for 2014, while ORA recommends no ratepayer funding
 - ORA's position is consistent with Commission precedent from many prior GRCs, both for PG&E and SCE
- **Bonus Depreciation Impacts**
 - 50% bonus depreciation rate included for years 2014 thru 2016 when modeling deferred taxes
 - Assumes provision will be extended by federal government beyond 2013
 - ▶ If not extended, revenue requirement calculation should be consistent with the effective Internal Revenue Code



Major Issue Areas

Post-Test Year Ratemaking

- **PG&E requests post-test year increases of \$441 million (5.6%) for 2015 and \$487 million (5.9%) for 2016**
 - The magnitude of PG&E's attrition request is comparable to the \$450 million increase which the Commission authorized for the *test year* in PG&E's 2011 GRC
- **ORA recommends increases of \$169 million (2.6%) for 2015 and \$159 million (2.4%) for 2016**
 - Includes additional revenues for gas leak repairs for those two years
 - PG&E can recover additional revenues for gas leak repair expenses if it actually spends more than ORA forecasts for the attrition years
 - Comparable to Commission-authorized attrition increases for PG&E's last two GRCs (Test Years 2007 and 2011)
 - Consistent with post-test year increases authorized by the Commission for SDG&E and SoCalGas in their most recent GRC (D.13-05-010)
 - Low inflation environment forecasted by Global Insight
 - CPI of 1.7% forecasted for 2015 and 1.9% for 2016

